

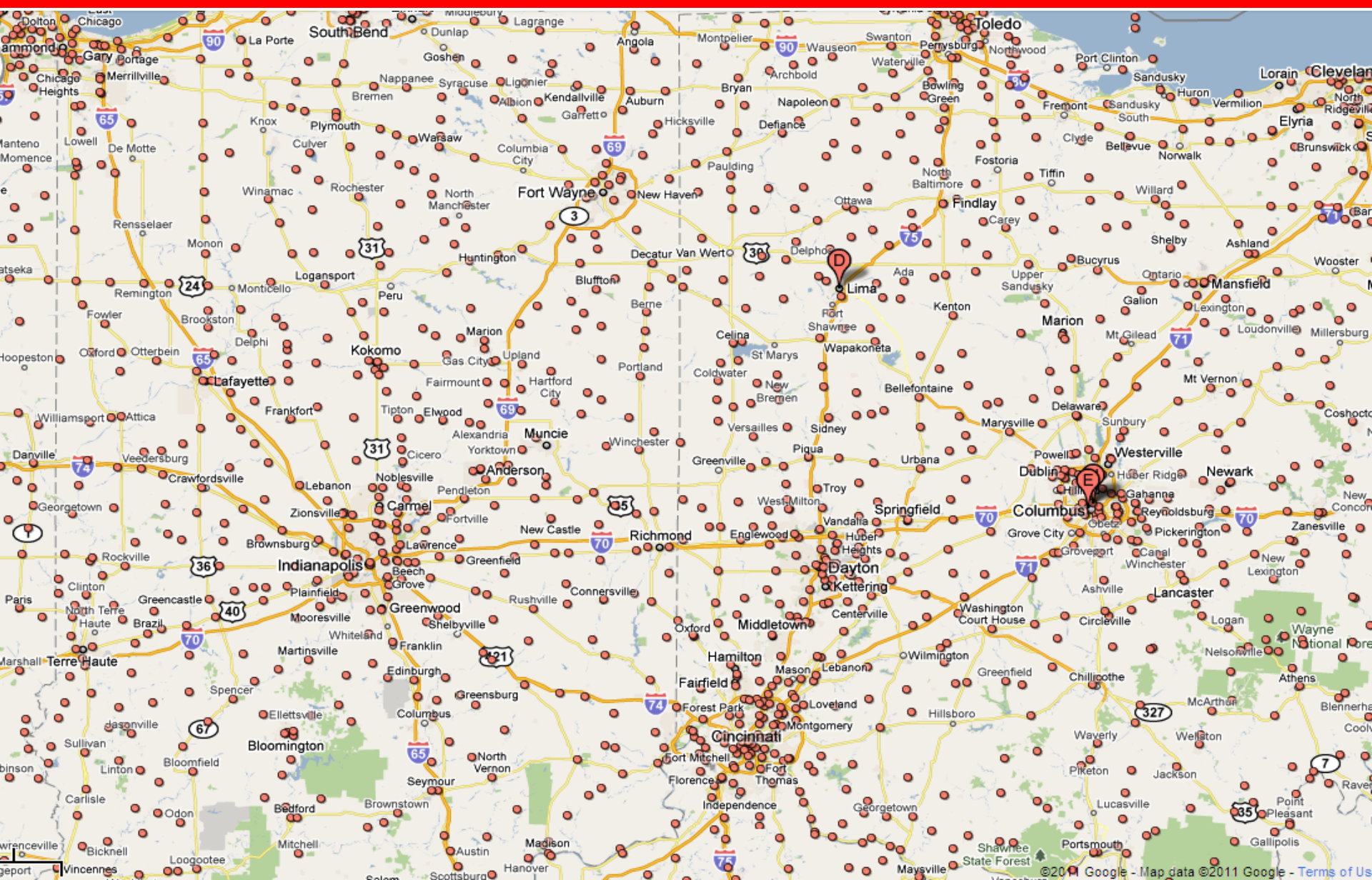
Attachment “G”

Briefing on Retail Discontinuance Policies and Management of Post Offices

April 21, 2011



UNITED STATES
POSTAL SERVICE®



Postal Service has as many full service retail facilities in the USA than:

Starbucks 11,158

McDonalds 12,804

Seven-Eleven 8,200

UPS Stores 4,300

COMBINED!

Postal Operated Units = 36,429

PLUS:

63,000 Stamp Consignment locations

7,600 Package and Priority Shipping Locations

1.3 Million visits to USPS.com each day, purchasing \$1.4 Million dollars in Click and ship labels every day.

PLUS over 80,000 Carriers that are Post Office on Wheels

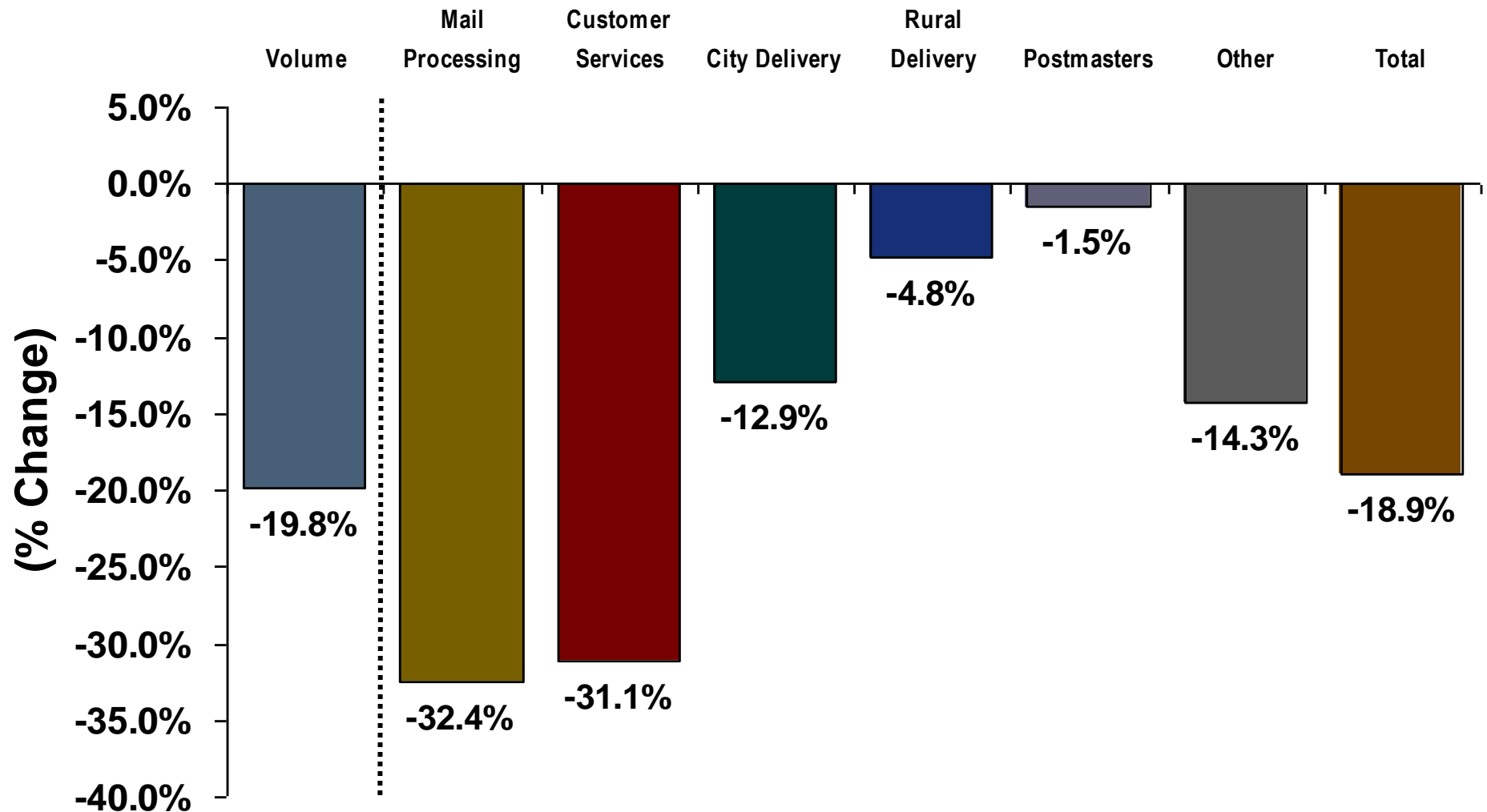
AND over 225,000 Carriers that pick up at your door 6 days a week!

AS WELL AS 2,500 Full Service 24/7 Kiosks, and Stamps by Mail, Fax, and Phone

USPS has more access points than any other retailer in the world!

- Background – Post Office Impacts
 - Volume and Workhour Trends
 - Post Office facts
- Proposed Rule Summary
- Timeline
- Issues Raised by Stakeholders
- USPS Objectives

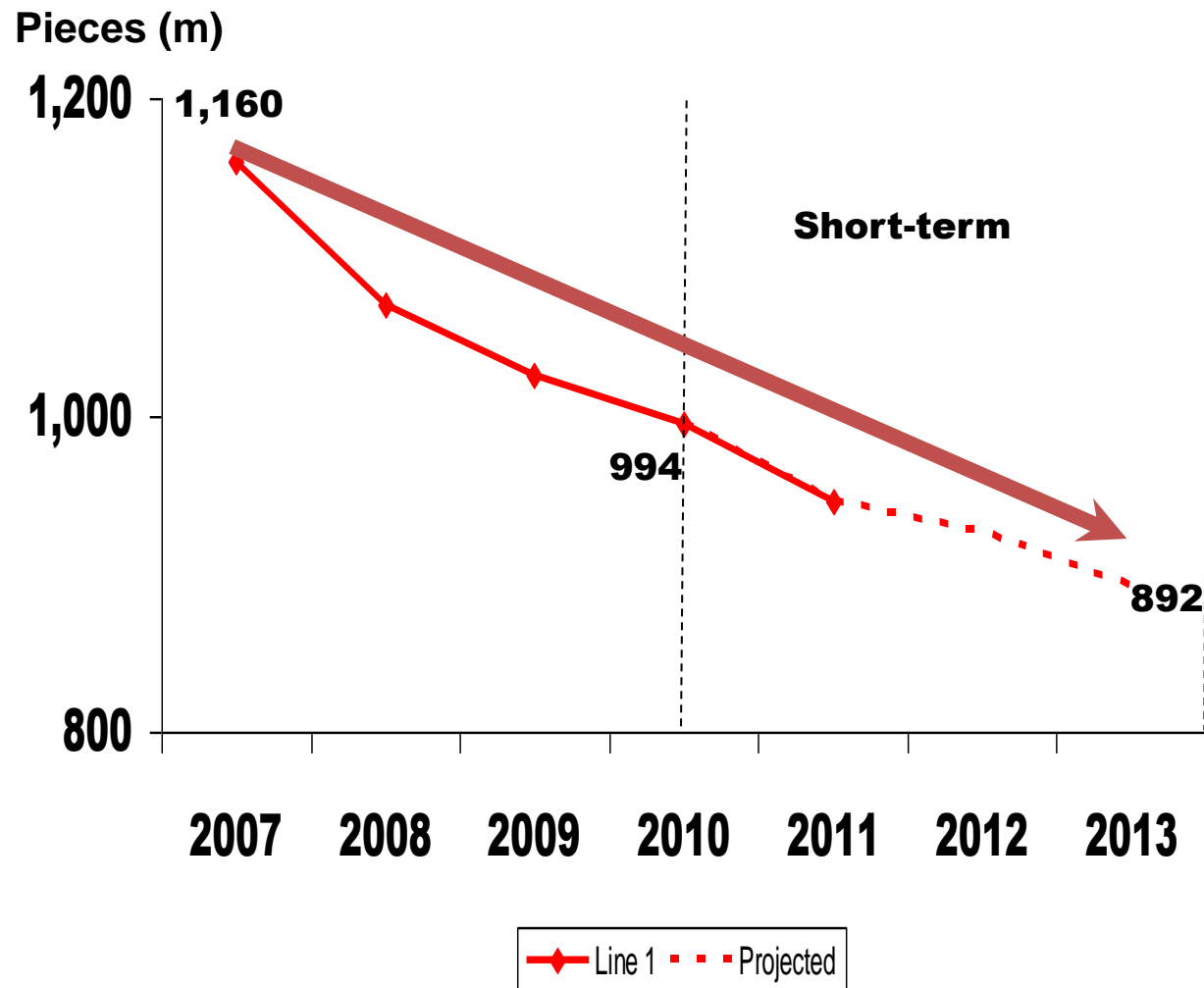
- ***USPS has nearly captured workhour savings commensurate with mail volume decline over the last four years***
 - Even with increasing delivery points at 1.4 million per year, savings have been captured in all categories except one.
 - Postmaster expenses have not been reduced by volume decline, even though their responsibilities have diminished.
 - Every craft and management group has been greatly impacted other than Postmasters:
 - Clerks/Mailhandlers – reduced 110,000 positions
 - Carriers – reduced 16,000 routes
 - Managers – reduced Areas, Districts, HQ staff, coverage ratios



Volume and Workhour Changes FY 2006 - 2010

- ***Customers visits are diminishing at Post Offices, with internet diversion, competition, and the expansion of Postal Access points outside of traditional Post Offices***
 - Over 35% of retail sales are now conducted in alternate access locations, including kiosks, contract stations, and online.
 - Stamps are now sold in over 63,000 locations such as grocery and merchandise retailers.
 - Percentage of alternate access continues to grow at a rapid rate, with customers choosing to conduct postal business at their work, shopping location, and at home for their convenience.

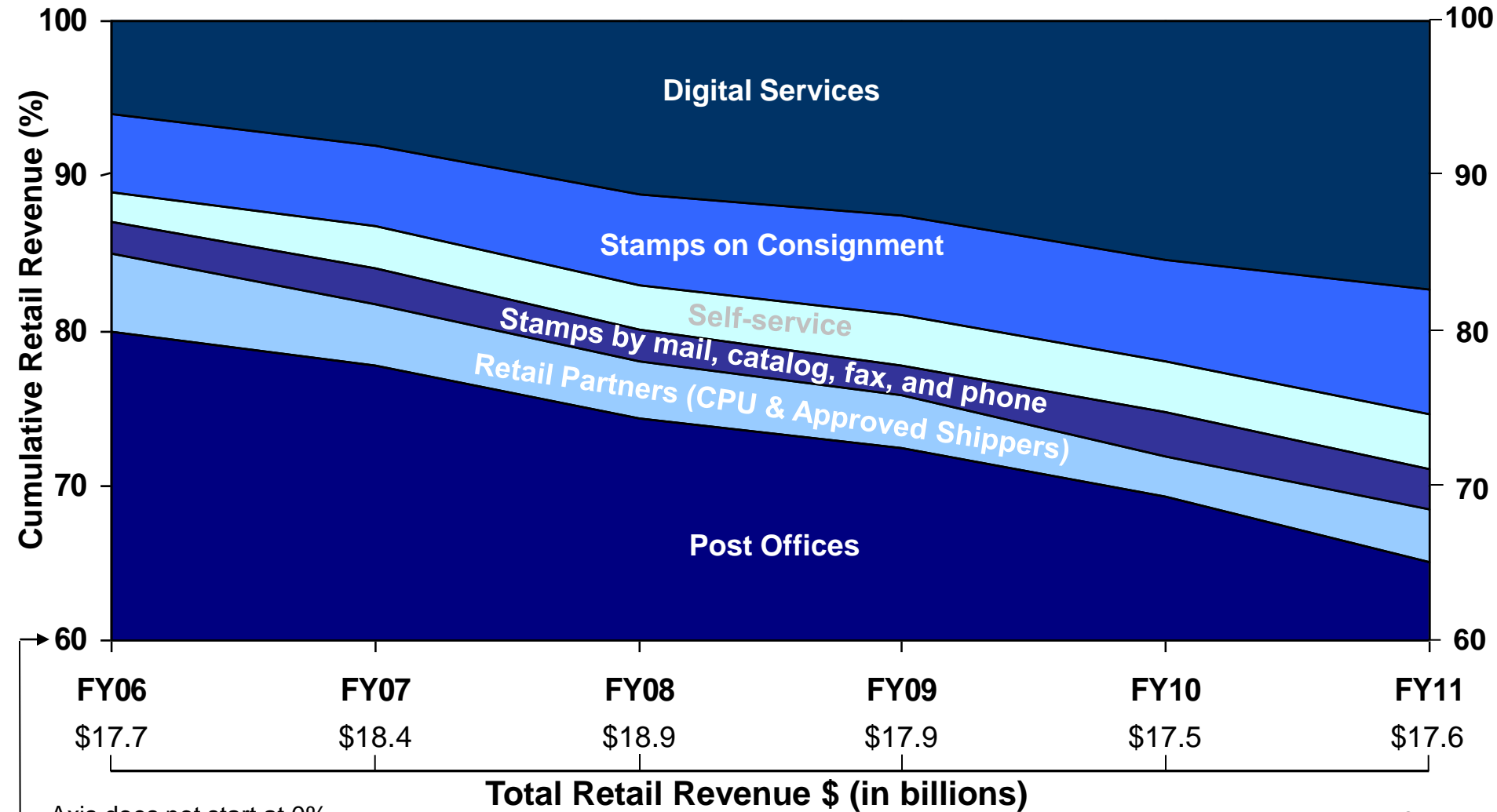
Annual Customer Visits



- Reduction in traditional visits
- Challenges current retail footprint
- Cost of doing business

Retail Revenue

Customer Post Office visits down 18% over last 3 years



Axis does not start at 0%

Cost Per Dollar

\$0.23¹

Hours of
operation

**Mon-Fri
9am – 5pm,
limited weekends**



Traditional Post Office vs. Alternate Channels

**Customers choose
convenience and easy
access**

**Traditional Retail Service
Is the most costly channel
of service**

**Customers are required to
absorb the costs of
political decisions that
keep redundant post
offices open**

**Customer choice will
create the impetus to
reconfigure retail network**

Online

\$0.08-\$0.12

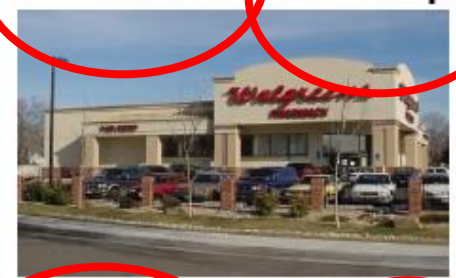
24/7



Partner

\$0.02-\$0.07

~7am-9pm



Self Service

\$0.12

24/7

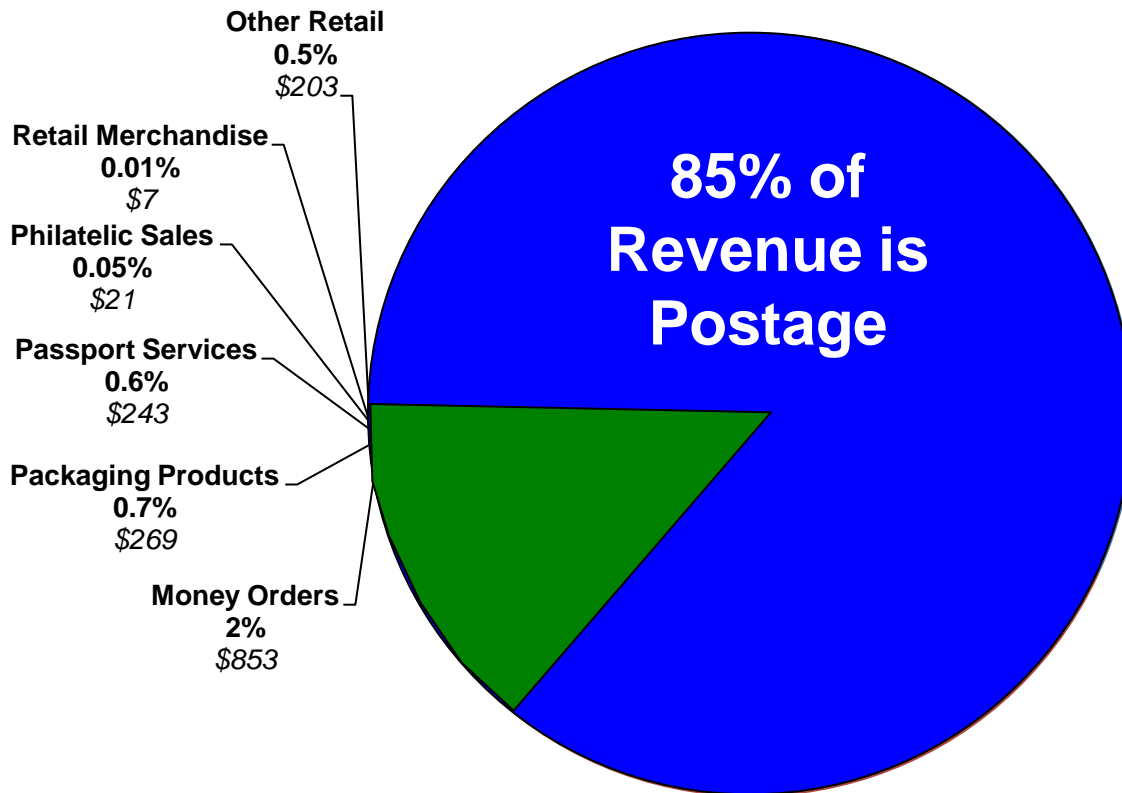


Perception	Reality
1. Small POs aren't big enough to warrant serious reform efforts	With \$1.25 billion in annual operating expenditures (excluding delivery costs), small POs have significant potential for cost savings
2. Alternate access is not available to rural customers	With average annual labor costs of \$81,000 (predominantly Postmaster Salary), cost avoidance strategies through alternate access is our strategic effort
3. Small POs are isolated, many miles from the next PO	Small POs tend to be clustered along major roads: 90% of small POs are within ten miles of another PO, and 48% are within 5 miles
4. Money orders are a major service provided by small POs	Though they may be time-consuming for Postmasters, money orders account for only 2% (\$780 annually) of the average small POs revenues
5. Customers at small POs tend to be senior citizens without mobility or internet	Median age in small PO zip codes (38 years) is virtually the same as in large PO zip codes (37 years); mobility and high speed access are not issues as once believed.
6. Customers prefer the PO located in their zip code	Customer PO "selection" is based on many factors: proximity to work, commuting route, PO hours, perceived level of customer service, wait time

- ***Small POs – defined as less than \$100k in annual revenue – consumed \$1.25 billion in non-delivery costs in FY2010 but generated only \$658 million in revenues***
 - With 15,000+ locations, small POs are numerous but account for only 5% of total PO revenue
 - More than 9,000 POs have annual revenue less than \$40k, averaging daily revenues of just \$68 dollars.
 - 3,000 offices have annual revenue less than \$15k, with less than \$25 dollars collected daily, or under \$5.00 dollars per hour.

Revenue collected at Small Post Offices is predominantly Postage sales

Average Small Post
Revenue (FY2010):
\$40,630



**21.4% of
sales are
from single
stamp
purchases**

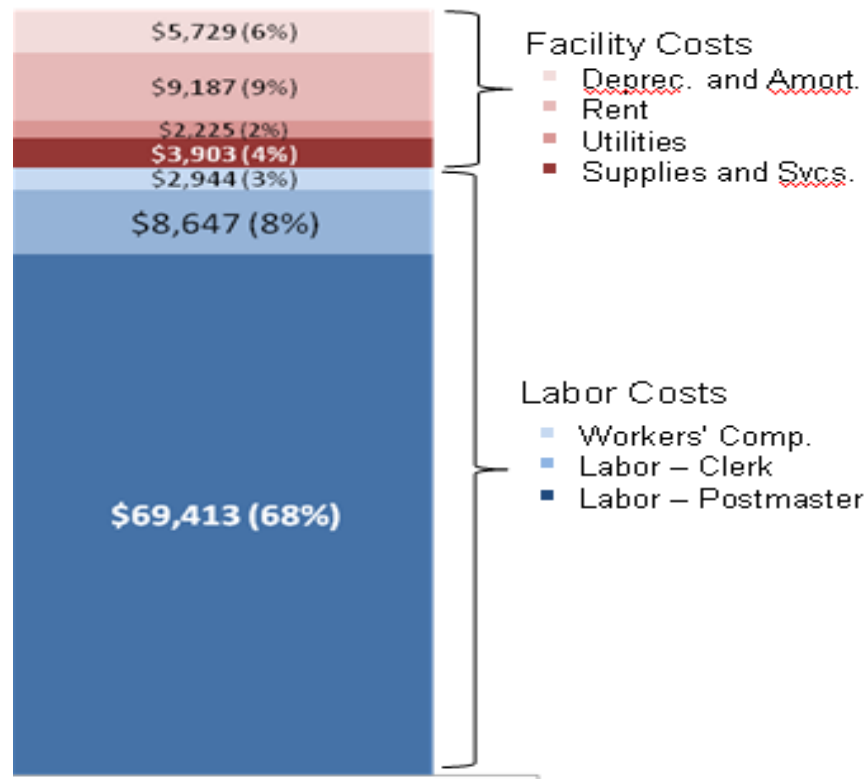
- ***Labor costs at small POs make up the vast majority of total costs, averaging \$81,000 per year***
 - 79% of total operating expenses (non-delivery) went toward Postmaster, clerk and workers comp expenditures in FY2010; only 21% were facility-related
 - Total small PO labor costs of \$1.03 billion represent substantial opportunity for savings if alternate access options can replace personnel

Labor costs at small Post Offices comprise just under 80% of operating expenses*, totaling greater than \$1 billion in FY2010.

Cost Analysis of Small Post Offices*

Average as a Percentage of Total, FY2010

Total: \$102,048



Small Post Offices

Key Takeaways

- 1. Cost associated with Postmasters in small POs was \$972 million in FY2010**
- 2. Facility-related costs represent only 21% of total operating expenses***
- 3. Potential exists for significant cost savings from substitution of Alternate Access points.**

*Operating expenses exclude delivery-related costs.

- ***Small POs are not nearly as geographically isolated as perceived by the public or the media***
 - 90% of small POs are within 10 miles of nearest PO, and nearly half are within 5 miles
 - Proximity to another PO gives residents a reasonable alternative if local PO is closed or self-service is unappealing

Despite (media-fueled) popular belief that small POs are isolated, almost 90% are within ten miles of another Post Office, and nearly half are within five miles.

Perception

“Take away their Post Office, Star Tannery (VA) residents say, and they will have to make the 20-mile round trip to Strasburg for that basic service.”

- *Washington Post*, 2/5/2011

***Capon Springs Post Office is 5.3 miles away. Eight Post Offices are within 10 miles.**

“Residents [of Holmes Mill, KY] will still have home delivery, and can use the Post Office in the next town, but some residents fear the drive: The 12-mile round trip is on a winding mountain road bordering a steep drop-off to the river...”

- *Wall Street Journal*, 1/24/2011

***Keokee, VA Post Office is 3.2 miles away. Twelve Post offices are within 9.7 miles.**

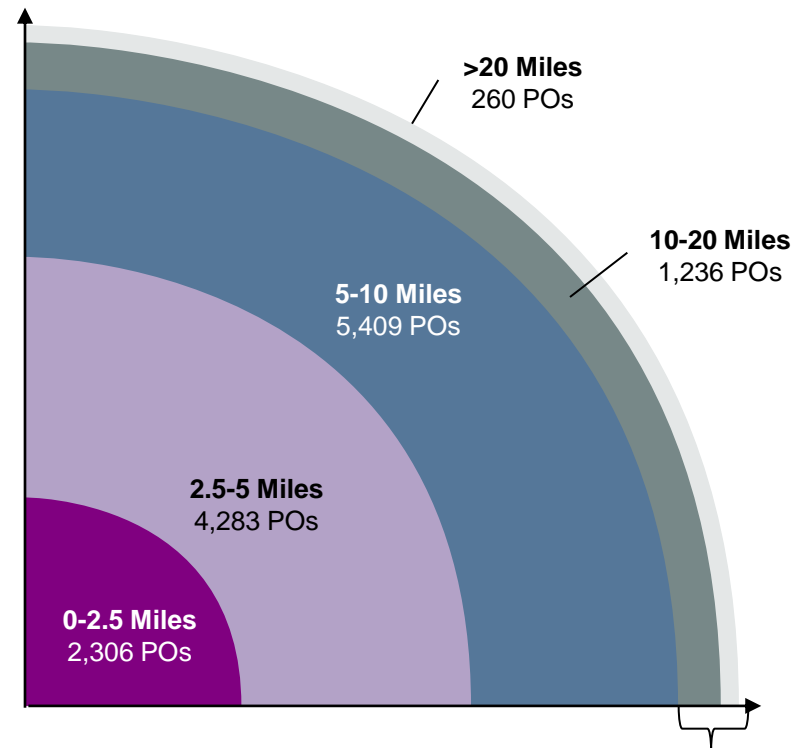
“The [Prairie City, SD] post office officially closed on Dec. 30 after 102 years... [She] now drives 40 miles to a post office.”

- *Wall Street Journal*, 1/24/2011

***Bison, SD Post Office is 14.2 miles away. Six Post Offices are within 33.6 miles.**

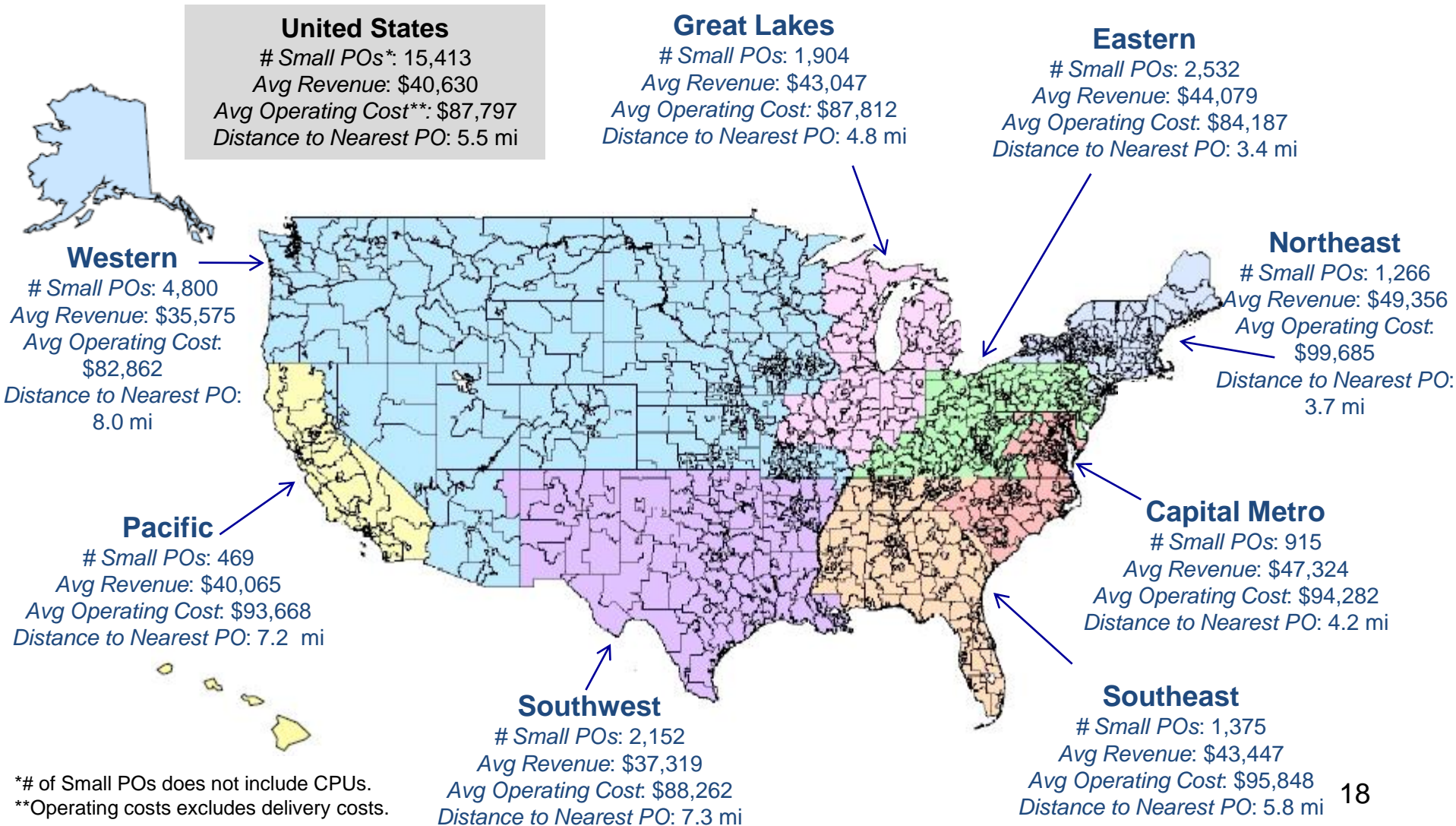
Reality

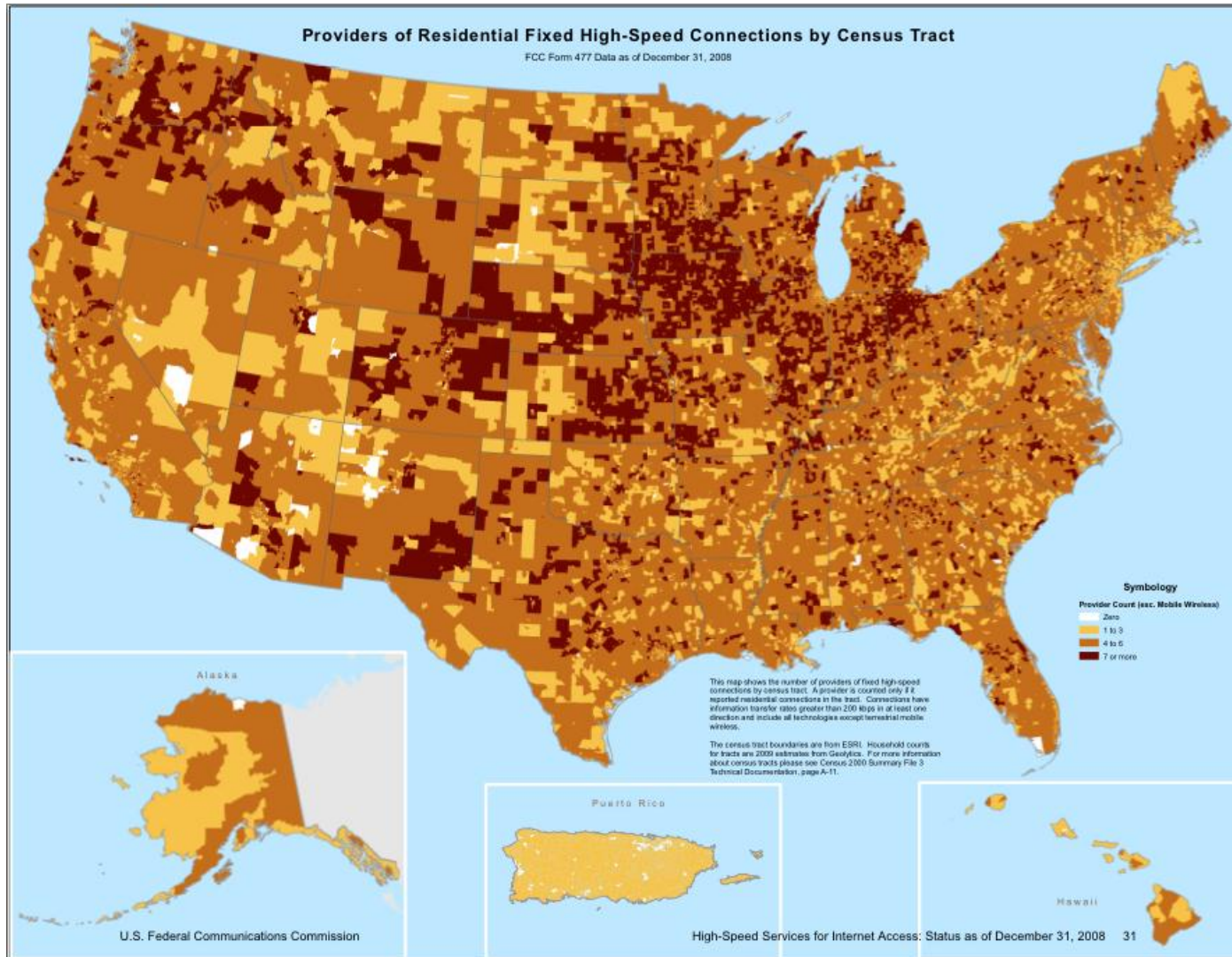
Distance (in Miles) to the Nearest Post Office
Small Post Offices¹



Only about 11% are greater than 10 miles from the nearest PO

As you move East to West, small PO revenues decline and distance to the nearest PO increases.



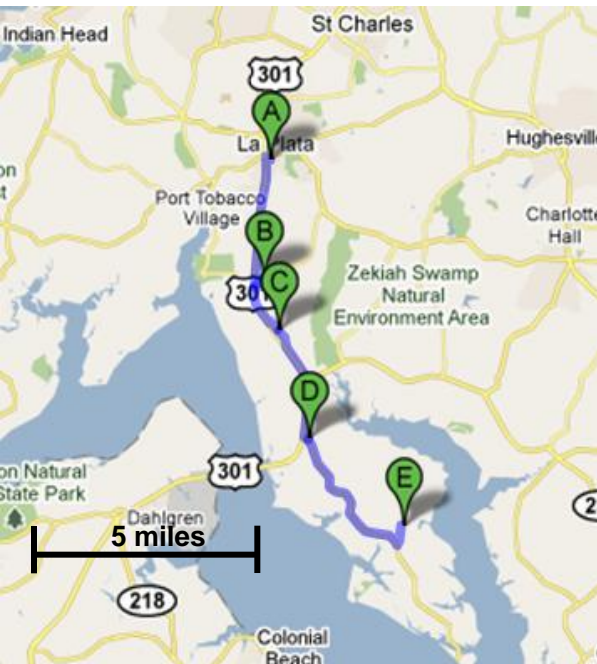


High Speed Internet providers now cover nearly all of the continental US.

- ***Availability exists to “duplicate” service levels with minimum inconvenience and greatly reduced costs***
 - USPS has developed a hierarchy of potential service elements from collection box retention; PO box duplication; stamp sales; vending/kiosk placement; and full service contract station.
 - In most cases, alternate access will provide improved hours of service options. Currently, over 1500 Post Offices offer less than 8 hours of window service.

Office B and C are within 3.6 Miles of Office A, and Office E is within 3.9 miles of D.

Post Offices Visited, with Key Metrics



	Marker	Name	Walk-In Revenue (FY10)	Operating Costs (Non-Delivery FY 10)	Driving distance to Nearest PO
		La Plata	\$899,240	N/A	3.1 miles
		Bel Alton	\$38,770	\$53,401	1.8 miles
		Faulkner	\$26, 109	\$95,853	1.8 miles
		Newburg	\$100,317	\$142,039	3.9 miles
		Mount Victoria	\$10, 989	\$30.178	3.9 miles 21

Businesses in B, C, and E

Bel Alton – 2 (Motor shop, Bar)

Faulkner – 1 (Baptist Church)

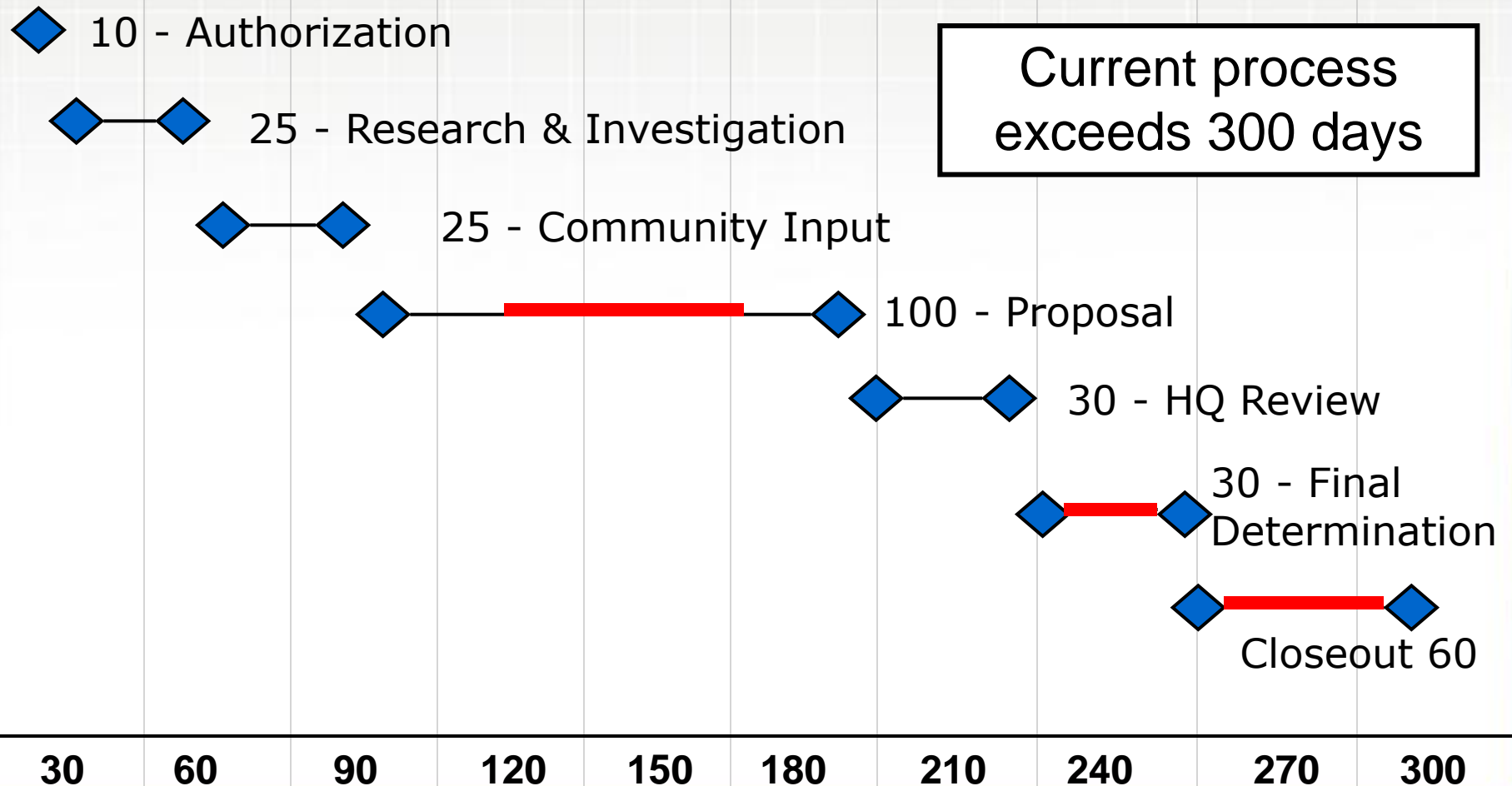
Mt. Victoria – 1 (Kennel)

- ***USPS conducted process review***

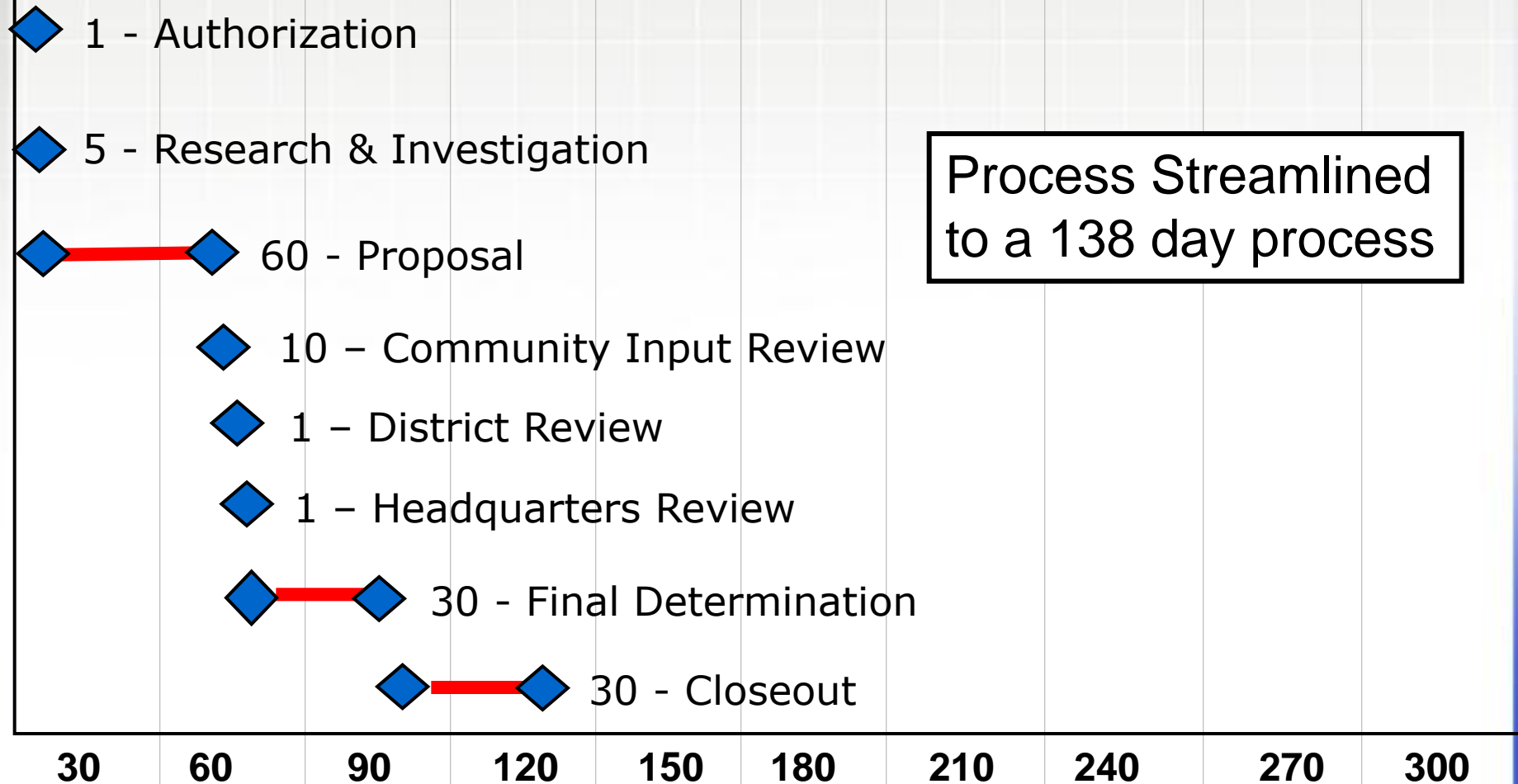
- USPS found that the internal rules created a cumbersome and time consuming process for discontinuance studies.
- A lean six sigma review process found many redundant and unnecessary steps that were not needed.
- The law itself was frequently misunderstood to mean that USPS could not close any office for “economic reasons”. That is simply not the case.
- Law states, “No small post office shall be closed solely for operating at a deficit...”



Discontinuance Timeline

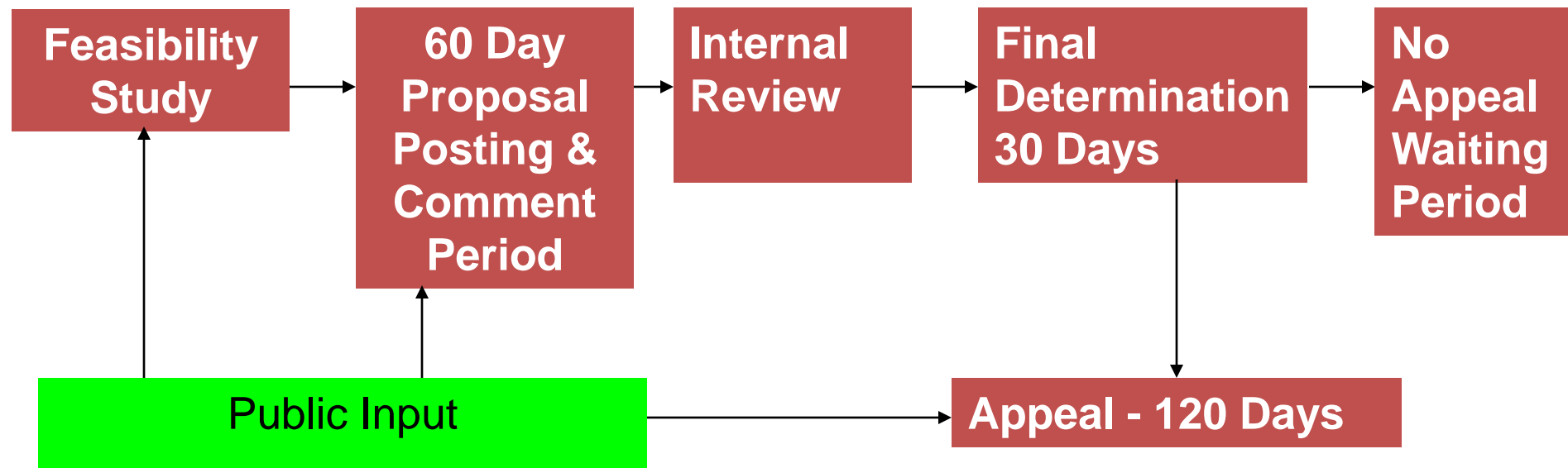


Discontinuance Timeline - Proposed



- Current Retail Unit Classification
 - Post Office
 - Station
 - Branch
 - Community Post Office
 - Contract Postal Unit

Issue	39 USC 404(d) Statutory Requirement	Current Rule	Proposed Rule
60 Day Notice of Intention			
60 Day Posting – Proposal	N/A		
Public Comment Solicitation			
30 Day Appeal Period – Final Determination			
Waiting Period	Add'l 30 Days	Add'l 60 Days	Add'l 30 Days
Appeal to PRC – up to 120 days			



Proposed Rule Summary 76 FR 17794

- Addition of Top Down Review
- New Factors Added:
 - Workload
 - Customer Demand
 - Alternate Access
- Process Management
- Station/Branch Closings – Community Input
- PO to Station/Branch Conversions
- PM to PO Ratios

- Proposed Rule
 - Published 3/31/2011
 - Comments received through 5/2/2011
- Separate Track
 - PM Association Consultation
- Publish 1st Final Rule
- Begin Operations under New Rules
 - HQ-directed Reviews
 - Proposals Posted
 - PRC Filing
 - Request for Advisory Opinion
 - Nationwide Change in Service
- Publish 2nd Final Rule

- Issues Raised By Stakeholders
 1. PRC Jurisdiction
 2. Postmaster Equity Act
 3. Deficit Operation
 4. Redefinition of Consolidation

ISSUE 1

- PRC Jurisdiction
 - USPS Position
 - Post Offices Only
 - Stations/Branches Excluded
 - Proposed Rule
 - Definition of “Consolidation”
 - PRC Position
 - Jurisdiction
 - Closing of Post Office, Station, Branch
 - Last Retail Unit in a Community
 - FR Notice Extends Public input to Station/Branch

ISSUE 2

- Postmaster Equity Act
 - Defines PM
 - “manager in charge of the operations of a post office”
 - Does not specify ratio PMs/POs
 - Purpose of Act
 - Consultation with Management
 - Pay Policies
 - Schedules
 - Does not Modify Staffing Decisions

ISSUE 3

- Deficit Operation
 - *No **small** post office shall be closed **solely** for operating at a **deficit**, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.*
- USPS Considers Economic Conditions
- 39 USC 404(d)
 - requires consideration of economic savings

ISSUE 4

- Redefinition of “Consolidation”
 - Claim Convert Thousands of POs
 - Alleged Denial of PRC Appeal Rights
- USPS Position
 - Conversion Only Where Appropriate
 - Conversion Costs
 - Present Planning – Most Likely Scenario
 - Preserve “PO” status or Discontinue w/ Appeal Rts
 - Staff Optimally
 - PM Manages >1 PO
 - Benefits for PMs

SUMMARY

- Flexibility Needed
 - Staffing Policy
 - Discontinuance Policy
- If Decision to Close, Fulfill Role in Small Communities via:
 - Alternate Access
 - Rural Delivery
 - Nearby Retail Units
- Review Need for Existing Statutory Limits
 - Deficit Restriction
 - Governors - authority to manage networks